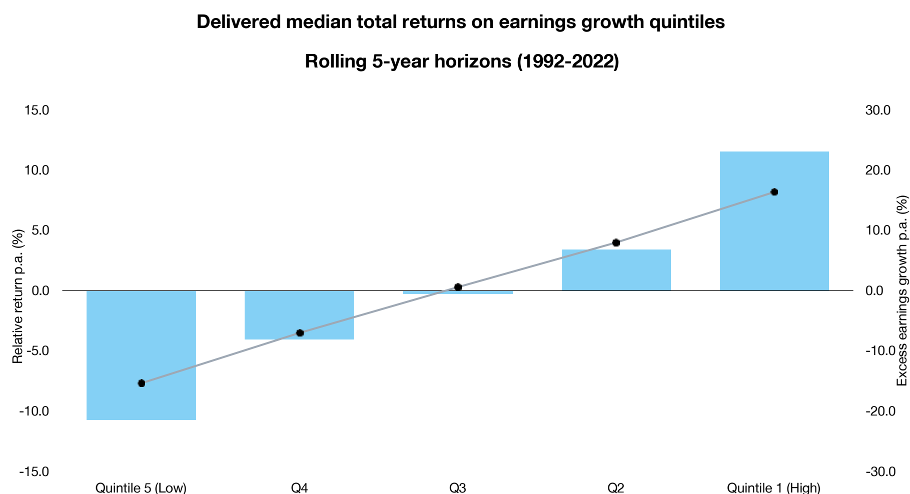
Reflections from Baillie Gifford November2023

A word of introduction

2023 has been a poor year for the performance of our International All Cap strategy. This comes on the heels of a difficult 2022 and we know that many of our clients will be asking what has been happening and why. As the year draws to a close, we would like to offer our thoughts.

What are we trying to do?

Our objective is to invest in companies whose earnings grow more strongly than those of their peers. We have great confidence that this is a route to successful investment. But it does require patience – we claim only that it works over the long term - and it demands of us the ability to get the choices of companies right.



Source: FactSet, FTSE, MSCI. The universe consists of all stocks listed in the FTSE World and MSCI ACWI Indices at each starting period and excluding repetitions.

This isn't solely a theory or an aspiration. It has been a successful approach for our clients over long periods of time – and Baillie Gifford has a proven history of investment spanning more than 100 years. However, the path is not always a smooth one. We know that the recent period has set back longer-term performance considerably for our clients, but it isn't the first significant setback that we have seen over the last few decades. For example, the period following the deflation of the TMT bubble twenty or so years ago, presented challenges for our approach. And in the years since then we have from time to time seen strong headwinds from political and economic events whose longer-term investment implications are few.

Investors should carefully consider the objectives, risks, charges and expenses of the Fund before investing. This information and other information about the Fund can be found in the prospectus and summary prospectus. For a prospectus or summary prospectus please visit our website at https://usmutualfund.bailliegifford.com. Please carefully read the Fund's prospectus and related documents before investing. Securities are offered through Baillie Gifford Funds Services LLC, an affiliate of Baillie Gifford Overseas Limited and a member of FINRA.

Why hasn't this been working?
Although it would be easier to simplify things here for the purpose of communication, there has been more than one major influence on the performance of your portfolio's holdings over the last two or three years. If we cast our minds back to the end of 2020 – less than three years ago – long-term performance was strong, many companies having benefitted from the pandemic. We hadn't positioned your portfolio for that event, but it turned out that the capital-light internet-enabled businesses, for example, did especially well.

Since then, much has changed. Consumer demand was much reduced for the businesses that had performed so strongly during the pandemic. Inflation rose as people began to spend again – assisted in some cases by government largesse – and because supply chains, rusty after a year or two of relative inactivity, struggled to operate smoothly. And the conflict in Ukraine put still greater upward pressure on prices, driving them this time from the supply side. Interest rates rose sharply in the face of the rising inflation. As yields rose, equity investors preferred to invest in companies that generated more of their cash in the immediate future – those that typically do not grow their earnings strongly over the long term, and which are less likely to feature in our clients' portfolios.

It's worth reflecting that the higher interest rates and inflation seen today in many of the world's developed markets are closer to the levels of longer-term history. It is the environment of the last decade or so that has been the anomaly, even though it is tempting to think of it as the normality to which things must return. But we are more concerned with businesses than economies, so why mention this at all? Simply because we know from decades of investing that economic and geopolitical headwinds can sometimes blow especially strongly – and the recent period has been a clear example of that.

For the first six or seven months of 2023 – a very short period of time, without question – we saw something of a restoration of the relationship between strong financial characteristics and share price performance. But since the summer, headwinds have returned, demonstrated by a sharp divergence between the performance of growth companies – broadly, the type that we invest in – and value companies. We have seen this particularly in Japan but it has been prevalent elsewhere too. It appears largely to have been driven by a realisation that the current higher rate environment is likely to be with us for a sustained period. This is a view that has been supported by central banks, which have voiced their determination to keep rates higher for longer to combat inflation.

Have we changed our approach?
Just as we did not position our clients' portfolios in advance of the pandemic, we are inclined to be very thoughtful about making adjustments purely in response to changed economic conditions. This has always been the case.

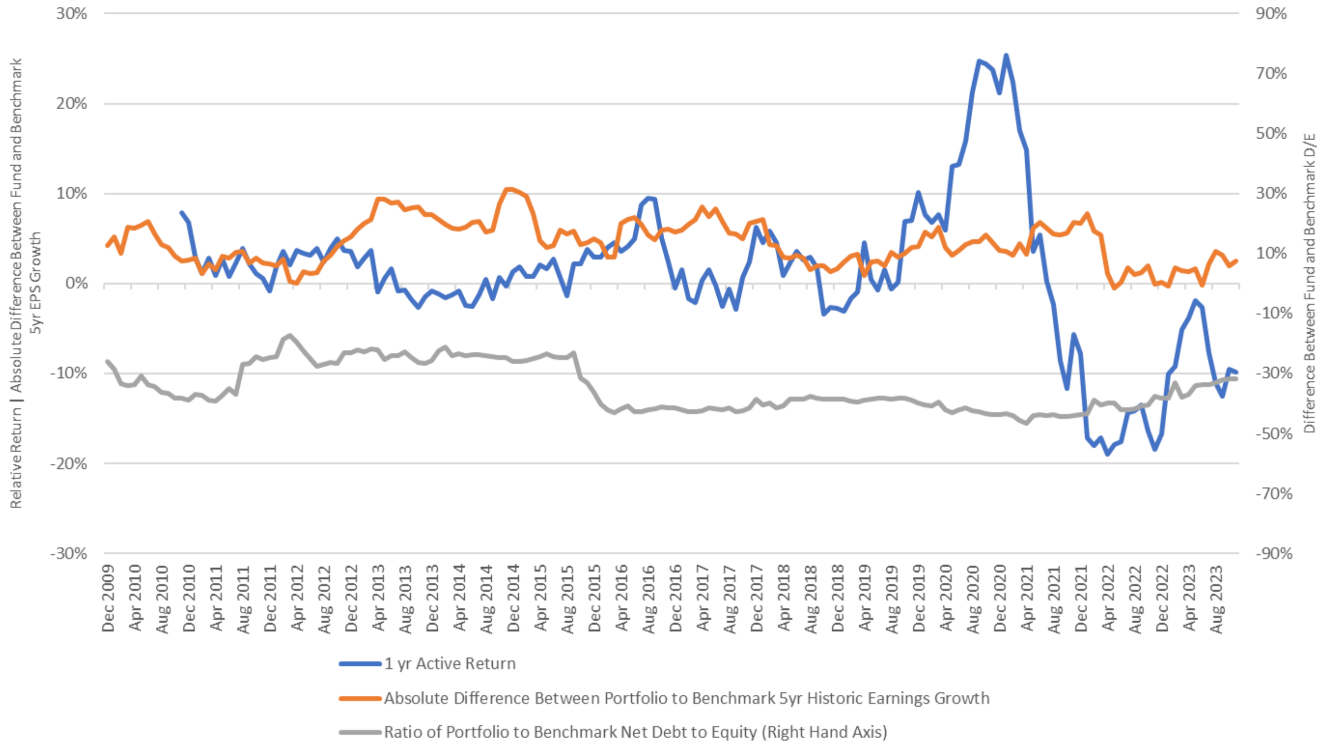
Our approach essentially demands that we have two things for each company in which we invest, always provided we have a differentiated assessment of valuation from the market: conviction in the case for long-term earnings growth (for we believe that this is what drives share prices), and confidence in the financial strength needed to support that growth. Given this, it makes sense to move on only when our assessment of the long-term growth prospects of a business looks likely to be affected negatively, or when its financial strength has weakened to the extent that it can no longer support that growth. That doesn't mean that there has to be complete inertia but, equally, there is no automatic reason why turnover must rise beyond its historically modest levels.

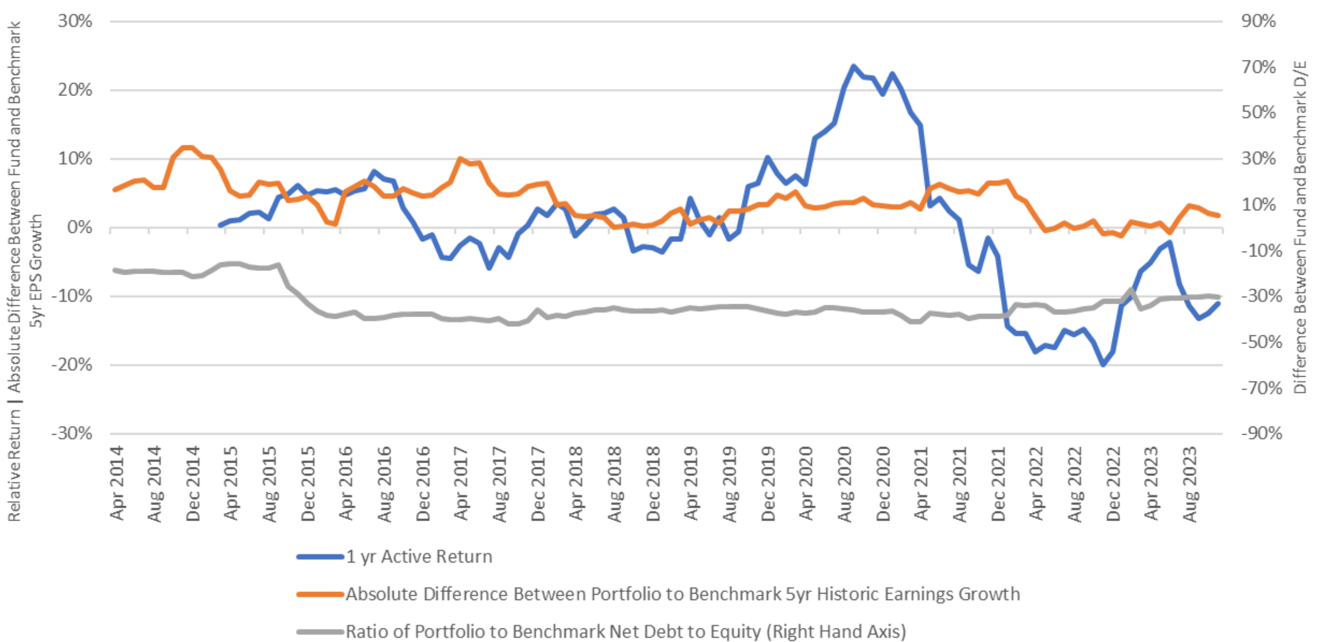
We have made some mistakes. There have been stocks for which the long-term growth case turned out not to be as robust as we had believed. And there have been stocks whose financial strength was not as robust as it needed to be. In these situations, we have sold and moved on, asking ourselves

searching questions and drawing lessons for the future. Even so, the annual turnover of your portfolio has remained below 15%, which is entirely consistent with the long-term investment horizon that we prefer.

These changes notwithstanding, in the vast majority of cases the companies in our clients' portfolios continue to display the financial strength needed to support their long-term growth – and the investment case for that growth is intact. Yet their share prices have not reflected this.

The reported five-year earnings growth for the companies in which our clients invest has almost always been healthily above that of the market. It's also the case that their level of indebtedness, which is a key component of financial strength, has consistently been well below that of the market over the same period. Rolling 12-month performance relative to the market has always been volatile, just as we'd expect - we make no predictions about short-term performance. But over the last three years that volatility has been extreme, in both directions.





Source: MSCI, Factset and Ballie Gifford

In other words, although the earnings growth that we seek has consistently been in place, and although the financial strength needed to support that growth has also consistently been evident, the share prices of the companies in which we invest have – in an extreme way - failed to reflect this recently. Whatever hopes and fears may have driven the short-term share price moves over the past three years, the key things that we seek have remained in place.

There is a second point here. The share prices of many of the growth companies in which we invest slid significantly during 2022. This was often attributed to the effect of rapidly increasing discount rates on 'longer duration' businesses – those that see more of their cashflows further out into the future rather than more immediately. Now that interest rates have risen and bond yields are much higher than in the recent past, a further potential headwind arises: the increased cost of borrowing for companies that are heavily dependent on debt finance. There are now some encouraging signs that inflation is subsiding, easing the path towards lower interest rates, but your portfolio's low level of indebtedness puts it in a solid position to withstand the challenges that remain.

What should you expect from us now?

Over the last couple of years we have seen a succession of external challenges that have created far stronger headwinds than we have seen for some years. But we cannot complain about that. We know from thirty years of managing our clients' International All Cap portfolios – and from a much longer period of investing for clients more widely – that such periods do sometimes occur. We recognise that they are very painful at the time. It might be possible to try to shorten the period of pain by adopting a different style entirely. But that would take us outside our area of competence. And it would be unhelpful to our clients, who expect each of their investment managers to play a specific role within their overall portfolio.

We intend to stick to the process that we have followed for our clients over many years. We will continue to seek companies that can grow their earnings faster than the market over the long term. And we will demand the fundamental strength that can support that growth.

Annual Turnover – Turnover is calculated as the smaller figure of either purchases or sales for the month and dividing it by an average fund market value. Annual Turnover is calculated as the sum of the monthly turnover figures for the 12 month period.

Earnings Growth – The weighted average growth in earnings per share of current portfolio holdings delivered over the past 5 years. This represents a measure of delivered profits growth for the current holdings in the portfolio or benchmark.

RISK FACTORS AND IMPORTANT INFORMATION

The Baillie Gifford EAFE Plus All Cap Fund
(Share Class K) as of September 30, 2023

Gross Expense Ratio	0.64%
Net Expense Ratio	0.64%

Source: Baillie Gifford & Co

The Baillie Gifford EAFE Plus All Cap Fund
Annualised total return as of September 30, 2023 (% p.a.)

	1 Year	3 Years	5 Years	10 Years
K Class	13.23	-6.97	-0.10	2.97
Benchmark	26.31	6.28	3.74	4.32

Source: Bank of New York Mellon, MSCI. Net of fees, US dollars.
Benchmark: MSCI EAFE Index.

The Baillie Gifford Developed EAFE All Cap Fund
(Share Class K) as of September 30, 2023

Gross Expense Ratio	0.64%
Net Expense Ratio	0.64%

Source: Baillie Gifford & Co

The Baillie Gifford Developed EAFE All Cap Fund
Annualised total return as of September 30, 2023 (% p.a.)

	1 Year	3 Years	5 Years	Since Inception
K Class	13.08	-6.51	0.05	2.61
Benchmark	26.31	6.28	3.74	4.04

Source: Bank of New York Mellon, MSCI. Net of fees, US dollars.
Benchmark: MSCI EAFE Index. Since Inception Date: 04/15/2014

The performance data quoted represents past performance and is no guarantee of future results. Investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. For the most recent month-end performance please visit the Fund's website at https://www.bailliegifford.com/en/usa/professional-investor/funds/

Returns are based on the K share class from 28 April 2017. Prior to that date returns are calculated based on the oldest share class of the Fund adjusted to reflect the K share class fees where these fees are higher.

The Baillie Gifford fund's performance shown assumes the reinvestment of dividend and capital gain distributions and is net of management fees and expenses. Returns for periods less than one year are not annualised. From time to time, certain fees and/or expenses have been voluntarily or contractually waived or reimbursed, which has resulted in higher returns. Without these waivers or reimbursements, the returns would have been lower. Voluntary waivers or reimbursements may be applied or discontinued at any time without notice. Only the Board of Trustees may modify or terminate contractual fee waivers or expense reimbursements. Fees and expenses apply to a continued investment in the funds. All fees are described in each fund's current prospectus.

Expense Ratios: All mutual funds have expense ratios which represent what shareholders pay for operating expenses and management fees. Expense ratios are expressed as an annualized percentage of a fund's average net assets paid out in expenses. Expense ratio information is as of the fund's current prospectus, as revised and supplemented from time to time.

The MSCI EAFE Index is a free float-adjusted market capitalisation weighted index that is designed to measure equity market performance in the global developed and emerging markets, excluding the United States. This index is unmanaged, does not reflect fees and expenses and ais not available for direct investment. The Baillie Gifford funds shown are more concentrated than their respective indexes.

The Funds are distributed by Baillie Gifford Funds Services LLC. Baillie Gifford Funds Services LLC is registered as a broker dealer with the SEC, a member of FINRA and is an affiliate of Baillie Gifford Overseas Limited. This document contains information on investments which does not constitute independent research. Accordingly, it is not subject to the protections afforded to independent research and Baillie Gifford and its staff may have dealt in the investments concerned. All information is current and sourced from Baillie Gifford & Co unless otherwise stated.

As with all mutual funds, the value of an investment in the fund could decline, so you could lose money.

The most significant risks of an investment in the Baillie Gifford EAFE Plus All Cap Fund are Investment Style Risk, Growth Stock Risk, Long-Term Investment Strategy Risk, Non-U.S. Investment Risk, Emerging Markets Risk and Asia Risk. The Fund is managed on a bottom up basis and stock selection is likely to be the main driver of investment returns. Returns are unlikely to track the movements of the benchmark. The prices of growth stocks can be based largely on expectations of future earnings and can decline significantly in reaction to negative news. The Fund is managed on a long-term outlook, meaning that the Fund managers look for investments that they think will make returns over a number of years, rather than over shorter time periods. Non-U.S. securities are subject to additional risks, including less liquidity, increased volatility, less transparency, withholding or other taxes and increased vulnerability to adverse changes in local and global economic conditions. There can be less regulation and possible fluctuation in value due to adverse political conditions. Investing in emerging markets can involve additional market, credit, currency, liquidity, legal or political risks than investing in more developed markets. Some Asian securities may be less liquid than US or other foreign securities. They can be affected by high inflation, currency fluctuations, political instability and less efficient markets. Many Asian economies are dependent on international trade and only a few industries and can be badly affected by trade barriers. Other Fund risks include: China Risk, Conflicts of Interest Risk, Currency Risk, Equity Securities Risk, Environmental, Social and Governance Risk, Focused Investment Risk, Geographic Focus Risk, Government and Regulatory Risk, Information Technology Risk, Initial Public Offering Risk, Japan Risk, Large-Capitalization Securities Risk, Liquidity Risk, Market Disruption and Geopolitical Risk, Market Risk, Service Provider Risk, Settlement Risk, Small-and Medium-Capitalization Securities Risk and Valuation Risk.

The most significant risks of an investment in the Baillie Gifford Developed EAFE All Cap Fund are Investment Style Risk, Growth Stock Risk, Long-Term Investment Strategy Risk, Non U.S. Investment Risk and Asia Risk. The Fund is managed on a bottom up basis and stock selection is likely to be the main driver of investment returns. Returns are unlikely to track the movements of the benchmark. The prices of growth stocks can be based largely on expectations of future earnings and can decline significantly in reaction to negative news. The Fund is managed on a long-term outlook, meaning that the Fund managers look for investments that they think will make returns over a number of

years, rather than over shorter time periods. Non-U.S. securities are subject to additional risks, including less liquidity, increased volatility, less transparency, withholding or other taxes and increased vulnerability to adverse changes in local and global economic conditions. There can be less regulation and possible fluctuation in value due to adverse political conditions. Some Asian securities may be less liquid than US or other foreign securities. They can be affected by high inflation, currency fluctuations, political instability and less efficient markets. Many Asian economies are dependent on international trade and only a few industries and can be badly affected by trade barriers. Other Fund risks include: China Risk, Conflicts of Interest Risk, Currency Risk, Equity Securities Risk, Environmental, Social and Governance Risk, Focused Investment Risk, Geographic Focus Risk, Government and Regulatory Risk, Information Technology Risk, Initial Public Offering Risk, Japan Risk, Large-Capitalization Securities Risk, Liquidity Risk, Market Disruption and Geopolitical Risk, Market Risk, Service Provider Risk, Settlement Risk, Small-and Medium-Capitalization Securities Risk and Valuation Risk.

Legal Notices
Source: MSCI. MSCI makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. The MSCI data may not be further redistributed or used as a basis for other indexes or any securities or financial products. This report is not approved, endorsed, reviewed or produced by MSCI. None of the MSCI data is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such.